

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
EXECUTIVE SUMMARY**

<b>Applicant:</b>	Keiro Nursing Home ("Keiro") 325 S. Boyle Avenue Los Angeles, California Los Angeles County	<b>Amount Requested:</b>	\$9,000,000
		<b>Loan Terms:</b>	15 years
		<b>Date Requested:</b>	August 26, 2004
		<b>Resolution Number:</b>	F-305
<b>Project Site:</b>	2221 Lincoln Park Avenue, Los Angeles, CA 90031		
<b>Facility Type:</b>	Skilled nursing facility		
<b>Policy Exception:</b> Keiro has not met the financial covenants for the minimum required debt service coverage ratio of 1.25x required by Cal-Mortgage for fiscal years 2001-2003. Cal-Mortgage has waived this requirement for fiscal year 2001 and 2002 and is in the process of waiving this for 2003.			
<b>Uses of Bond Proceeds:</b> Loan proceeds will be used to current refund the California Statewide Community Development Authority's (CSCDA) 1994 Certificates of Participation. This refunding will result in a net present value savings of approximately \$803,000 or 6.89% of the par amount existing bonds..			
	<b>Type of Issue:</b>	Negotiated public offering	
	<b>Credit Enhancement:</b>	Cal-Mortgage (BBB) wrapped with FGIC (AAA)	
	<b>Expected Rating:</b>	AAA – based on FGIC	
	<b>Senior Underwriter:</b>	Edward D. Jones and Co., L.P.	
	<b>Bond Counsel:</b>	Quint and Thimmig	
<b>Financial Overview:</b> Keiro's interim operating results exhibit vast improvement from previous years. During fiscal year 2001, Keiro struggled financially, improved in 2002 and 2003, but still incurred losses. Keiro's balance sheet exhibits both negatives and positives, with negatives being the high level of leverage and inadequate (although improving) debt service coverage, however its liquidity is solid. Further supporting this financing request is that Keiro Services (parent company to Keiro Nursing) will provide a guarantee to Cal-Mortgage, although the guarantee does not provide security to the bondholders. Keiro Services has significant net assets in excess of \$25 million. In addition, this transaction will be insured by Cal-Mortgage and wrapped with FGIC insurance, which further reduces the Authority's risk level.			
<b>Sources of Revenue: (10/31/03)</b>			
		<i>Amount</i>	<i>Percent</i>
	Net patient service revenue	\$18,259,718	97.5%
	Other revenue	<u>469,444</u>	<u>2.5%</u>
	Total Revenues	<u>\$18,729,162</u>	<u>100.0%</u>
<b>Sources of Funds</b>		<b>Uses of Funds</b>	
	Par amount bonds	\$9,000,000	Refund 1994 CSCDA bonds
	Transfer prior bond escrows	<u>1,088,000</u>	\$8,345,000
			Financing costs
			825,000
			Debt Service Reserve
			793,000
			Contingency
			<u>125,000</u>
	Total Sources	<u>\$10,088,000</u>	Total Uses
			<u>\$10,088,000</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.			
<b>Staff Recommendation:</b> Staff recommends the Authority approve a Resolution in a amount not to exceed \$9,000,000 for Keiro Nursing Home, subject to a final Cal-Mortgage commitment and a wrap by an acceptable municipal bond insurer with a bond rating of at least an "A" by a nationally recognized rating agency.			

**STAFF SUMMARY AND RECOMMENDATION  
KEIRO NURSING HOME (“Keiro”)**

August 26, 2004  
Resolution Number: F-305

**POLICY ISSUE:** Keiro has not met the financial covenants for the minimum required debt service coverage ratio of 1.25x required by Cal-Mortgage for fiscal years 2001-2003. Cal-Mortgage has waived this requirement for fiscal years 2001 and 2002 and is the process of waiving this for 2003.

I. **PURPOSE OF FINANCING:** Keiro seeks to current refund California Statewide Community Development Authority’s (CSCDA) 1994 Certificates of Participation in order to obtain a lower interest rate.

***Refunding Certificate of Participation* ..... \$8,345,000**

The Certificates of Participation (COP’s) proposed for refunding were issued by the CSCDA in 1994 and are scheduled to mature in 2019. The 1994 COP’s were issued in the original amount of \$10,675,000 with interest rates ranging from 5.30% in 2005 to 5.875% in 2009 through 2019. The original debt was issued to advance refund the 1989 COP’s, which were used to expand the Keiro’s facility (in Los Angeles) from 87 beds to its current 300-bed capacity.

This refunding is expected to result in a net present value savings of approximately \$803,000, due to the lower interest rates available in today’s market.

***Financing costs* ..... 825,000**

*Underwriters Discount*..... \$142,000  
*Costs of Issuance*..... 150,000  
*Insurance Premium FGIC*..... 207,000  
*Cal-Mortgage fee* ..... 326,000

***Debt Service Reserve Fund*..... 793,000**

***Contingency*..... 125,000**

***Total Uses of Funds*..... \$10,088,000**

**Financing Structure:**

- Credit Enhancement: Cal-Mortgage insurance with FGIC (AAA) wrapped insurance.
- Expected Credit Rating: AAA based on FGIC insurance.
- Negotiated public offering.
- Serial bonds with maturities ranging from 2005 to 2019.
- Estimated coupon rate ranging from 1.55% to 4.05%, based on FGIC insurance.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

	<b>Keiro Nursing Home</b>			
	<b>Statement of Activities</b>			
	<b>(Unrestricted)</b>			
	<b>8 months</b>	<b>For the Year Ended October 31,</b>		
<b>Ending</b>				
<b>June 30,</b>	<b>2003</b>			<b>2001</b>
<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	
<b>(unaudited)</b>				
<b>Revenue</b>				
Net patient service revenue	\$ 12,838,698	\$ 18,259,718	\$ 18,426,618	\$ 15,916,916
Other revenue	213,392	469,444	163,205	123,615
Total revenues	<u>13,052,090</u>	<u>18,729,162</u>	<u>18,589,823</u>	<u>16,040,531</u>
<b>Expenses</b>				
Patient services	7,347,124	10,849,486	10,484,007	9,254,088
General services	3,000,397	4,770,712	4,559,693	5,130,632
Administrative services	2,258,123	2,914,417	3,107,135	1,660,769
Depreciation and amortization	367,162	466,801	652,587	649,165
Interest	321,564	496,420	505,351	514,340
Total expenses	<u>13,294,371</u>	<u>19,497,836</u>	<u>19,308,773</u>	<u>17,208,994</u>
Operating gain (loss)	(242,281)	(768,674)	(718,950)	(1,168,463)
Nonoperating gains (losses):				
Investment income	47,281	131,845	178,200	315,624
Donations	245,520	366,049	290,195	287,473
Other	(9,426)	(22,088)	(24,469)	(14,193)
Nonoperating gains, net	<u>283,375</u>	<u>475,806</u>	<u>443,926</u>	<u>588,904</u>
<b>Increase (Decrease) in unrestricted net assets</b>	<b>41,094</b>	<b>(292,868)</b>	<b>(275,024)</b>	<b>(579,559)</b>
Unrestricted net assets, beginning of year	<u>3,607,103</u>	<u>3,899,971</u>	<u>4,174,995</u>	<u>4,754,554</u>
Unrestricted net assets, end of year	<u>\$ 3,648,197</u>	<u>\$ 3,607,103</u>	<u>\$ 3,899,971</u>	<u>\$ 4,174,995</u>

**Keiro Nursing Home****Balance Sheet**

	As of June 30,	For the Year Ended October 31,		
	2004 (unaudited)	2003	2002	2001
<b>Assets</b>				
Current assets:				
Cash and cash equivalent	\$ 147,267	\$ 108,661	\$ 84,092	\$ 93,238
Investments, current	2,263,179	769,890	723,688	669,749
Accounts receivable	2,133,799	2,248,096	2,224,795	3,149,718
Assets whose use is limited, current portion	1,150,868	207,246	181,038	305,996
Other current assets	822,640	746,937	283,559	336,173
<b>Total current assets</b>	<b>6,517,753</b>	<b>4,080,830</b>	<b>3,497,172</b>	<b>4,554,874</b>
Property and equipment, net	8,873,296	8,719,737	9,055,779	9,509,556
Assets whose use is limited, long-term portion	-	974,477	950,681	933,944
Investments, long-term (3)	-	1,485,016	1,562,695	1,588,673
Certificate of issuance costs, net	246,748	257,922	274,684	291,445
<b>Total assets</b>	<b>\$ 15,637,797</b>	<b>\$ 15,517,982</b>	<b>\$ 15,341,011</b>	<b>\$ 16,878,492</b>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable	\$ 346,380	\$ 462,742	\$ 398,707	\$ 548,606
Accrued expenses	799,680	651,905	642,831	588,279
Interest payable	165,006	80,420	83,140	84,254
Note payable, current portion	340,000	340,000	320,000	305,000
Due to Keiro Services	2,348,649	2,345,812	1,626,362	2,487,358
<b>Total current liabilities</b>	<b>3,999,715</b>	<b>3,880,879</b>	<b>3,071,040</b>	<b>4,013,497</b>
Notes payable, long-term portion	7,989,885	8,030,000	8,370,000	8,690,000
<b>Total liabilities</b>	<b>11,989,600</b>	<b>11,910,879</b>	<b>11,441,040</b>	<b>12,703,497</b>
Net assets:				
Unrestricted	3,648,197	3,607,103	3,899,971	4,174,995
<b>Total net assets</b>	<b>3,648,197</b>	<b>3,607,103</b>	<b>3,899,971</b>	<b>4,174,995</b>
<b>Total liabilities and net assets</b>	<b>\$ 15,637,797</b>	<b>\$ 15,517,982</b>	<b>\$ 15,341,011</b>	<b>\$ 16,878,492</b>

## Financial Ratios:

	Proforma <sup>(1) (2)</sup> <u>FYE 2003</u>			
Debt Service Coverage (x)	0.87	0.82	1.07	0.71
Debt/Unrestricted Net Assets (x)	2.3	2.14	2.41	2.15
Margin (%)		-4.10	-3.87	-7.28
Current Ratio (x)		1.05	1.14	1.13

(1) Recalculates October 2003 audited results to include the impact of the proposed financing.

(2) Proforma debt service using unaudited 6/30/04 operating results is 1.04x

(3) Long-term investments were transferred into current investments during fiscal 2004

## **Financial Discussion:**

**Keiro's interim operating results exhibits vast improvement from previous years. During fiscal year 2001, Keiro struggled financially, but results have improved in 2002 and 2003, however it still incurred losses. Further supporting this financing is that Keiro Services (parent company to Keiro Nursing Home) will provide a guarantee to Cal-Mortgage. In addition, this transaction will be insured by Cal-Mortgage wrapped with FGIC insurance.**

Keiro opened its new 39-bed Alzheimer's unit in fiscal year 2001. An average of 23 beds were occupied out of the 39 beds available. Patient revenue improved for both Medicare and private pay patients by 4% and 2% respectively. Keiro also added four Medicare-distinct part certified beds and increased private pay rates to explain the increase of patient revenue in 2001. Operational expenses during 2001 increased more than the rate of the revenue increase because of nursing overtime and the use of nursing registry. The shortage of licensed nurses as well as certified nursing aids had a great impact to most nursing homes during this time.

During fiscal year 2002, Keiro was very aggressive in filling up their beds. Patient days were up by 14% from 87,340 days in 2001 to 99,581 days in 2002, although the mix increased to more Medi-Cal patients. The increase in revenue contained operational losses to almost half of the operating loss experienced in 2001. Nursing registry was used at a minimum during this fiscal year because the Corporation had implemented incentive programs for recruiting nurses and started in-house training for nursing aids. Salary increases were also implemented to retain licensed nurses.

During fiscal year 2003, Keiro had operating results similar to 2002. Management contained operating expenses within 1% of the previous year. Fortunately, effective August 1, 2003, there was an increase in Medi-Cal reimbursement from \$103.54 to \$107.20, however this rate was in effect for only 3 months during 2003 fiscal year. In addition, private pay rates were increased by \$5.00 from the last increase in 2001. Although investment income decreased from the prior two years, donations increased to more than offset that. Keiro Services, the parent corporation has launched a three-year \$20 million endowment fundraising beginning June 2003, that may provide donations to Keiro in future years.

The financial performance of Keiro for the eight-month period ending June 30, 2004 has shown marked improvement over the prior period. The net loss from operations is down to (\$242,000) compared to last year's (\$768,000), while the net gain after non-healthcare income is \$41,000, compared to a loss of (\$292,000). With the aggressive fund raising efforts, management expects 2005 to be a profitable year for Keiro.

**Keiro's balance sheet exhibits both negatives and positives, with negatives being the high level of leverage and marginal (although improving) debt service coverage, however its liquidity is solid.**

Keiro's has sizeable liquid assets, with cash and short-term investments in excess of \$3 million. Keiro is significantly leveraged with over \$8 million in debt (includes current portion of debt), especially compared to the \$3.6 million in unrestricted net assets, leading to 2.2x debt to equity. Keiro's existing debt service coverage is an inadequate .82x and the proforma improves to .87x, which is still below the Authority and Cal-Mortgage's minimum debt service coverage of 1.25x. Keiro's operations continue to improve during the interim period (ending 6/30/04) and the proforma debt service coverage improves to 1.04x, indicating that Keiro could just barely cover debt service payments, given their current operations.

A compensating factor in analyzing this proposed financing is the bonds will be insured by Cal-mortgage, which significantly reduces the Authority's risk level. In addition, Keiro will be obtaining wrap around insurance through FGIC, which further reduces the Authority's risk level. This insurance would cover bondholders in case Cal-Mortgage was not able to make debt service payments.

**III. UTILIZATION STATISTICS:**

The following table sets forth the historical utilization of the Keiro's skilled nursing facilities for the past three fiscal years ended October 2001, 2002, 2003 and the eight months ending June 30, 2004.

	Period ending			
	June 30,	Fiscal Year Ended October 31		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>Keiro Nursing Home</u>				
Licensed Beds	300	300	300	300
Patient Days	66,027	98,186	99,581	87,340
Average Daily Census	272	269	273	239
Occupancy	91%	90%	91%	80%
<u>South Bay Nursing Home</u>				
Licensed Beds	98	98	98	98
Patient Days	23,055	35,475	35,267	34,730
Average Daily Census	95	97	97	95
Occupancy	96%	99%	99%	97%

#### **IV. BACKGROUND:**

Keiro was incorporated in March of 1985 as a 501(c)(3) nonprofit public benefit corporation for the specific charitable purpose of promoting the welfare of the aged by providing and furnishing board and care, convalescent nursing facilities and services and rehabilitation aid convalescent care, treatment and services. Keiro owns and operates two skilled nursing facilities in the Los Angeles area: Keiro Nursing Home and South Bay Nursing Home. Each of the facilities admits patients from throughout the greater Los Angeles area. Each offers services tailored specifically to the Japanese culture, language and diet.

The Keiro Nursing Home facility was constructed in 1969 as an 87-bed skilled nursing facility. This facility was funded from a combination of contributions from community supporters and \$500,000 in debt, which has since been repaid. Expansion of the Keiro Nursing Home facility to a 300-bed skilled nursing facility commenced in 1989, with a majority of construction funding coming from the proceeds of a 1989 Certificate of Participation financing, which financing was refinanced with the 1994 Certificates. Completion of the expansion and occupancy of Keiro occurred in 1991. In 2000, thirty-nine Keiro Nursing Home beds were converted to Alzheimer's care. The 98-bed South Bay Nursing Home was acquired in 1980 and has not been significantly modified nor expanded since then.

**Licenses and Contracts:** Keiro is licensed as a skilled nursing facility by the Department of Health Services.

**Service Area and Competition:** Keiro serves primarily the Japanese elder community in and around the Los Angeles basin although its facilities and programs are open to all individuals. There are no other facilities in the Los Angeles area that addresses the skilled nursing need of elderly residents of Japanese ancestry. As such, Keiro is not in direct competition with any other skilled nursing facilities within its service area.

#### **V. SECTION 15438.5 OF THE ACT (Savings Pass Through).**

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Keiro has provided a description of its savings pass through in “**Attachment A**”.

**VI. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement).**

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

A copy of Keiro's certification is included as "Attachment B".

**VII. OUTSTANDING DEBT:**

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 10/31/03 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing:</b>			
Certificates of Participation CSCDA, 1994	\$10,675,000	\$8,345,000	\$-0-
<b>Proposed:</b>			
CHFFA, Series 2004		N/A	9,000,000
<b>TOTAL DEBT</b>		<u><u>\$8,345,000</u></u>	<u><u>\$9,000,000</u></u>

(a) Includes current portion of long term debt

**VIII. LEGAL REVIEW:**

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

**IX. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a Resolution in an amount not to exceed \$9,000,000 for Keiro Nursing Home, subject to a final Cal-Mortgage commitment and a wrap by an acceptable municipal bond insurer with a bond rating of at least an "A" by a nationally recognized rating agency.